



BUILDING AMERICA®

304159

ENTERED
Office of Proceedings
March 23, 2022
Part of
Public Record

March 23, 2022

Via Electronic Filing

Ms. Cynthia T. Brown
Chief, Section of Administration
Office of Proceedings
Surface Transportation Board
395 E Street, SW
Washington, D.C. 20024

Re: **Docket No. EP 711 (Sub-No. 1) – *Reciprocal Switching***

Dear Ms. Brown:

Union Pacific respectfully requests that the Testimonies of Jennifer L. Hamann, Eric J. Gehringer, and Kenny Rocker be filed in Docket Number 711-1: Reciprocal Switching. Please contact me if you have any questions. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Whitney Larkin".

Whitney Larkin

Enclosure

Surface Transportation Board

Docket No. EP 711 (Sub-No. 1)

Hearing on Reciprocal Switching – March 2022

Testimony of Union Pacific Railroad Company

STB Hearing on Reciprocal Switching

March 15-16, 2022

Testimony of Jennifer L. Hamann

Union Pacific Railroad Company

Good morning/afternoon, Chairman Oberman, Vice Chairman Schultz, Members Fuchs, Primus, and Hedlund and Board Staff. My name is Jennifer Hamann, and I am the Executive Vice President and Chief Financial Officer at Union Pacific Railroad. I, along with Eric Gehringer, Executive Vice President Operations, Kenny Rocker, Executive Vice President Marketing and Sales, and our counsel Mike Rosenthal, want to thank you for the opportunity to speak on behalf of Union Pacific about the reciprocal switching proposal currently before the Board.

My colleagues and I are here today to discuss how the switching proposal would financially and operationally impact what we have all learned over the last year or so is a very fragile and complex global supply chain and, more directly, how it would impact Union Pacific's customers. Specifically, let me outline how forced reciprocal switching adversely affects current and future capital investments along the railroad.

Without a doubt, our goals and our customers' goals are intrinsically linked. Our customers want their products delivered safely and on time, with minimal variability. And Union Pacific is committed to meeting those expectations. Beyond that immediate alignment, it is in Union Pacific's long-term strategic interest to grow the amount of traffic on our rails and to be the partner of choice for our customers.

The current switching proposal appears intended to provide customers with increased carrier flexibility. However, I can unequivocally state that this increased flexibility will *distort* crucial signals that help us allocate capital effectively and will *disrupt* the fundamental investment model of the rail network – a model that has produced the safest, most efficient, and most effective National Rail Network in American history. The impact of that distortion would limit or hinder the rail industry’s ability to invest for growth, which in turn, attracts investment to our industry.

During my 30-year tenure, Union Pacific has consistently established and communicated its desire to grow carloadings, setting annual growth targets and releasing multi-year plans that are rooted in a commitment to growth. We want to grow and invest for the future, and, in fact, our owners want us to grow as well. And we must prudently allocate our dollars based on the information that is available to us and the certainty of that information. Our investment priority, first and foremost, is our infrastructure. Beyond that, Union Pacific is committed to a competitive dividend as well as responsible share repurchases. We have been quite consistent in this capital allocation strategy, which is necessary for us to compete for capital against other publicly traded companies (including many of our customers), but also to compensate our shareholders for their investment.

To support our growth plans, Union Pacific routinely seeks areas of improvement along our rail to increase throughput and reliability. With our capital investments, we specifically target nodes with rising demand and operational delays. These capital investments serve as the catalyst to ensure our network is flowing efficiently and meeting our customers’ needs.

Unfortunately, the switching proposal alters these crucial dynamics and creates uncertainty. The risk of switched traffic reduces our incentive to allocate valuable capital investment dollars to areas where we could lose traffic, where there's uncertainty about traffic growth, or where we could be forced to handle traffic for a competitor without adequate compensation. Specifically, the proposal interferes with our ability to forecast and allocate resources. We are responsible for both network investments and investments benefiting individual customers. Under this proposal, a customer can focus on its own short-term interest without regard to the needs and demands of other customers or the network. To its credit, the STB has said that it would act in each case to safeguard the interests of those other customers and the shared interest of all stakeholders in a fluid, well-functioning, and capable network. However, Union Pacific cannot invest under the assumption the STB will successfully defend those interests in every. Nor will investors assume that level of success. As currently proposed, reciprocal switching would limit Union Pacific's ability to proactively invest in the network and must then be accounted for by Union Pacific and its investors. This is especially concerning because it will inherently limit prospective investment needed to both maintain and grow an ever-burdened supply chain. It would particularly impact the "rail link" in the chain, which funds its own infrastructure investments and is one of the most emissions-friendly transportation modes.

My concern about investment is not merely speculative or hypothetical. For example, we partner with our plastics customers to support their growth initiatives. In just the last five years, which includes the start of an industrial recession and a global pandemic, Union Pacific invested around \$115 million dollars in Storage In Transit facilities in Texas and Louisiana. Here, Union Pacific evaluated both the gain in business and whether that key investment would lead to an increase in

network capacity. This strategic investment has helped us and will continue to help us serve our customers and improve network fluidity. However, these investments are not made without careful planning and consideration, working with our customers to understand their long-term goals and objectives. And the phrase “long-term” is important here. The average life of our rail assets is more than forty years. If Union Pacific were performing this evaluation in a switching proposal environment, with no certainty about returns, we would have needed to consider whether the infrastructure investment would result instead in decreased fluidity and lost contribution to the benefit of a competitor. I liken it to allowing Burger King to use the grill at McDonald’s. Would McDonald’s invest in a larger grill with better cooking technology if there was a real possibility that Burger King could co-opt the use of the grill? This is the added risk of the switching proposal and would almost certainly have changed Union Pacific’s cost-benefit analysis for the Storage In Transit facilities, negating the viability of an investment that is helping our customers grow and improving network fluidity.

In addition, because of the “network” nature of our business, capital investments in one area directly impact the system as a whole. Thus, the switching proposal changes the paradigm across the network and makes all capital investments riskier. The proposal degrades our ability to evaluate a project’s margins and impedes identification of capital expenditures that would benefit our customers, the global supply chain, and our commitment to zero carbon emissions by 2050.

If our underlying financial investment is hindered by this proposal, our ability to make investments like, in President Biden’s words, “the largest purchase of American-made battery-electric locomotives in all of history” would also be hindered. I encourage the STB to maintain an

environment where the U.S. railroads are successful and are supporting a booming American economy through massive investments for growth, better service, and lower emissions.

Change is often valuable and should be welcomed as an opportunity. However, increased risk equates to less activity and a more conservative approach to network investment. This switching proposal limits the rail industry's ability and motivation to flex resources and make capital investments in the network and, ultimately, will become another source of inflation for the U.S. consumer.

I now pass the remainder of our time to my esteemed colleagues.

Jennifer L. Hamann

Executive Vice President and Chief Financial Officer

Union Pacific Railroad

Delivered March 15, 2022

STB Hearing on Reciprocal Switching

March 15-16, 2022

Testimony of Eric J. Gehringer
Union Pacific Railroad Company

Good morning/afternoon Chairman Oberman, Vice Chairman Schultz, Members Fuchs, Primus, and Hedlund and Board Staff. Thank you for the time to speak today.

I'm going to focus on how the switching proposal would prevent us from providing the reliable, consistent, and efficient service we must deliver to retain and grow our business. [Earlier today, you heard complaints about PSR and first-mile/last-mile service. Switching is not a cure for those complaints. Switching would magnify existing service challenges and make future problems more likely.] As I will explain, the switching proposal would build delay, longer cycle times, greater congestion, and increased complexity into the supply chain. We would find it more difficult to plan and manage our network resources, and our network would be more vulnerable to disruption. We would be using more resources to move the same amount of traffic, instead of using our resources to better serve existing and new business.

This proposal inherently complicates the supply chain network. It would make that network less agile and less predictable. As Executive Vice President of Operations at Union Pacific, my job is to keep the railroad moving fluidly and efficiently while planning for market changes and keeping our employees safe. The nation's supply chain is a delicate arrangement of movements and handoffs that must be well timed and closely synchronized to maintain fluidity. Each increment of complexity is a source of error and dysfunction. Each increment of complexity also reduces transparency on the network for our customers. The switching proposal makes the rail network

and overall supply chain continuously vulnerable to new sources of disruption while failing to promote the stated goal of improved service.

One of the key vulnerabilities for the supply chain is the handoffs between service providers. This is true for handoffs between logistics providers in the overall supply chain as well as the handoffs within the rail network. To maintain fluidity of the network, the handoffs must be well timed and synchronized through significant planning and communication. Reciprocal switching increases the number of potential points of failure by injecting new handoffs into an already complex and challenging system. This proposal would lead to a desynchronization and bottlenecks.

Additionally, this proposal will make proper resource planning and resource allocation for the complex network significantly more problematic. It takes time to adequately plan for resources to be sourced in the appropriate areas of the network. Locomotives cannot be everywhere at the same time, and they do not appear overnight. The proposal will inject unforeseen demand into the network due to the unavailability of certain equipment. These are long-term assets that need proper planning. People are not interchangeable. We staff our crews due to their qualifications and understanding of how to do work on certain track or in a particular location. This proposal assumes that any crew can service any area of the network—and that is simply not the case. Each crew goes through specific training to meet the needs and demands of the network in a defined area. Moreover, we have received feedback that our customers want the same crews serving them, so the crews do not make mistakes in picking up and setting out their cars. This continuity of talent is an integral point in sustaining fluidity in our network. Our network is a series of tightly mapped-out links: if one link goes missing, the chain, or rail network, would be incomplete.

By decreasing traffic density and injecting inefficiency into operating plans, the long-term health of the network will be affected by the proposal. Transit times will significantly increase. We don't have to speculate about that impact. Reciprocal switching that we currently perform typically adds 48 to 96 hours of delays due to cars traversing the terminal twice. The cars subjected to reciprocal switching would remain in the yards, consuming more capacity, interfering with service, and diminishing our ability to build traffic density.

Let me address a misconception about the current switching that occurs on our network: railroads already reciprocal switch, so how would this proposal be any different? There are many instances of reciprocal switching that currently exist on the rail network. That is absolutely true. These situations differ from the proposal before the Board in that these situations were long planned and deliberate. Additionally, because we were aware of these switching situations due to mergers and/or consolidations, we were able to evaluate the network to determine if it could sustain the switching, and to plan adequately with resources to support these switches. We utilize and leverage the appropriate resources in our network to address this voluntary switching. More important, these situations are narrowly tailored, limited in number and location, and mitigated in advance by significant changes in the physical network of the merged railroad.

This switching proposal is not a solution for improving service. On the contrary, it will degrade service. And it will create very different challenges over and above normal traffic fluctuations, volumes seasonality, and increase response time to unpredictable events like weather and fires. Under the proposal, Union Pacific could not mitigate the impacts of forced switching through

processes we normally use to try to anticipate and adjust for dynamic changes and uncontrollable events. The proposal complicates the network, driving fragility, and raising uncertainty. This would increase the customer's transit time as surge resources are not available at a moment's notice, are not sustainable, and again, take time and planning.

Let me also say this: Union Pacific wants to compete and welcomes competition. The Board has received comments that railroads are against reciprocal switching because they fear competition. That is not the case. We compete hard, and we welcome competition. We take business from one another all the time. We also welcome growth. And we welcome continuing to have a positive impact on the supply chain.

I urge the Board to consider the severely negative consequences this proposal will have on the overall U.S. supply chain and our customers' freight rail service and experience. Thank you for your consideration of my deep concerns about forced switching. I look forward to addressing any questions you might have.

I pass the remainder of my time. Thank you.

Eric J. Gehringer

Executive Vice President – Operations

Union Pacific Railroad

Delivered March 15, 2022

STB Hearing on Reciprocal Switching

March 15-16, 2022

Testimony of Kenny Rocker

Union Pacific Railroad Company

Thank you for the opportunity to talk about the reciprocal switching proposal currently before the Board.

First, let me begin by saying that we have been talking to our customers. Based on their feedback, we better understand where they see pressure points in our network. And I can tell you today these points identified by our customers will only be exacerbated by this switching proposal, and our ability to improve those points will be frustrated.

We also have spent a great deal of time *listening* to our customers. We want to better understand their processes, their needs, their plans, and their challenges. We want to know how we can improve their customer experience with us. What we have learned is simple: the most important value that our customers seek is consistent and reliable service from their transportation provider. With this switching proposal, there will be a higher potential for variability of service because forced switching increases the number of connections between two railroads. One of our chemical customers has shared with us that the increase in variability of service will negatively impact its costs in several ways. In reviewing the feedback, we realized that this may be something that all customers understand and experience.

The biggest concern for our customers is a loss in sales if production is slowed or halted because of delays in getting their rail cars to their facility. Customers are also concerned that shipment

delays may cause them to use truck transportation at a higher cost to move their product to end receivers. They are also sensitive to service variability because it causes increased cycle times, which forces customers to respond by requiring more rail cars and increasing inventory carrying costs.

Those concerns can quickly create real, tangible, and increased costs for our customers. For instance, if we assume the cycle times for manifest traffic increased by 24 hours, then customers would need to increase their fleets by 3,200 rail cars. A chemical customer shared that a one-day increase in transit time would translate to an additional rail car lease cost of \$100,000 annually and \$350,000 in annual inventory carrying costs. Those general customer concerns would arise in the environment created by the switching proposal.

Our customers have also been demanding a seamless and transparent user experience, and Union Pacific has been working to meet that demand. We have made significant investments to improve the customer experience. When a customer ships on our network, they know the rail car ETA from the time the car is waybilled or received by Union Pacific. Our online Shipment Management and API service tools give customers increased shipment visibility. That visibility enables our customers to better manage their inbound flow of rail cars.

The proposal would undermine that investment by hindering those transparency and technology tools. For instance, we do not get an advanced ETA for interchanges from foreign railroads to Union Pacific at the final serving yard. The actual number of rail cars being delivered on the train to Union Pacific from a foreign road is only known the day of train arrival. This does not allow

Union Pacific to plan for and manage the flow of rail cars. As a result, it could cause our serving yard to exceed capacity and not be able to provide timely and reliable service to our customers. Our customers would face increased shipment times and not be able to properly service their customers. Overall, the supply chain would continue to be overburdened by the inability to satisfy the customer demand due to a slow transit supply.

As Jennifer and Eric have both stated, railroads create vital links in the Nation's supply chain. If you add more links to that chain, then there is an added risk of failure inserted into the process. Variability is the customers' greatest concern. And adding complexity promises to increase that variability for our customers.

With multiple hand-offs, there is an increased risk of service variability and a much greater shipment visibility challenge for our customers. With additional parties inserted into the movement, there will be less visibility for customers to know where their shipment is at any given time. This creates additional contacts for customers to resolve issues. The increase in service complexity increases the likelihood of disruption and adverse ripple effects across the broader supply chain.

Over the course of these proceedings, we've heard arguments that forced switching works in Canada, so it can work in the United States. I'll let our Canadian colleagues address their experience with how forced switching works in Canada. But I think it is fair to say that the U.S. rail network is different from the Canadian rail network in ways that would make forced switching much more harmful to our customers. With all due respect to our Canadian colleagues, the

challenge they face is just not as complex as what we are dealing with here in the United States. We estimate that Canada has approximately 3,700 rail-served customers. Union Pacific alone has more than 10,000. More customers mean more switches. In addition to the far greater number of customers, the U.S. system is far more complex, interlocking and web-like. All of this greater *service* and *network* complexity requires us to work closely with our customers to plan inbound shipments. And Union Pacific must keep an eye on the big picture the whole time, so we can avoid the congestion and service inconsistencies that would create the negative experiences our customers particularly want to avoid.

We understand several customers might choose reciprocal switching. However, we are deeply concerned for the customers who are bystanders to that choice. Because those bystanders would be negatively impacted by customers that chose reciprocal switching. We are here today because Union Pacific values all its customers and makes decisions that consider the entire network.

In closing, Union Pacific is working to improve our service product to maintain consistency and reliability. We have invested in more technology solutions to enhance the customer experience. I urge the Board not to inhibit those efforts.

Thank you for your time and consideration of my remarks.

Kenny Rocker

Executive Vice President – Marketing and Sales

Union Pacific Railroad

Delivered March 15, 2022